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# Report to those charged with governance (ISA 260) 2014/15

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Lincolnshire Pension Fund

September 2015



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley the engagement lead to the CCG, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

**This document summarises the key issues identified during our audit of the Lincolnshire Pension Fund's (the Fund's) financial statements for the year ended 31 March 2015.**

### **Scope of this report**

The Audit Commission's Code of Audit Practice requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and report to those charged with governance. We are also required to comply with International Standard on Auditing ('ISA') 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2015.

### **Financial statements**

As with the main audit of Lincolnshire County Council (the Authority), our audit of the Fund follows a four stage audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures.

Our on site work for these took place during March 2015 (interim audit) and June and July 2015 (year end audit).

Some of our responsibilities under ISA 260 relate to the Authority as administering authority as a whole and are discharged through our separate ISA 260 Report and Annual Audit Letter for the Authority.

This specifically includes our work in the completion stage:

- Declaring our independence and objectivity;
- Obtaining management representations; and
- Reporting matters of governance interest, including our audit fees.

### **Structure of this report**

This report is structured as follows:

- Section two summarises the headline messages.
- Section three sets out the findings from our audit work on the Fund's financial statements in more detail.

### **Acknowledgements**

We would like to take this opportunity to thank officers for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. Sections three of this report provides further details on each area.

<b>Proposed audit opinion</b>	<p>We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015.</p> <p>At the date of this report our audit of the Fund's financial statements is substantially complete. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund.</p> <p>We also need to complete our final checks on the content of the pension fund's annual report and issue our separate opinion on that report.</p>
<b>Audit adjustments</b>	<p>We are pleased to report that our audit of the Fund's financial statements did not identify any material adjustments. The Authority made a small number of non trivial adjustments, most of which were of a presentational nature.</p>
<b>Key financial statement audit risks</b>	<p>We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risk in our 2014/15 External audit plan issued in March 2015.</p> <ul style="list-style-type: none"> <li>▪ From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members..</li> </ul> <p>We have worked with officers throughout the year to discuss this key risk and our detail findings are reported in section 3 of this report.</p>
<b>Accounts production and audit process</b>	<p>The Authority continues to have good processes in place for the production of the Fund's financial statements and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.</p>
<b>Control environment</b>	<p>The Fund's organisational control environment is effective overall. We have though highlighted one issue which emerged in the year relating to the lack of a reconciliation between information held on the Altair pensions administration system and the pensions payroll system. The Authority is taking the required action to rectify this issue.</p>

**We have identified no issues in the course of the audit that are considered to be material.**

**Proposed audit opinion**

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 21 September 2015.

**Audit differences**

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements. We identified a number of minor issues that have been adjusted by management and do not need to be reported to you. This included a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code').

**Completion**

At the date of this report, our audit of the Fund's financial statements is substantially complete.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Authority's representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements. A full declaration of our independence is set out in the main *ISA 260 Report* for the Authority.

**Annual Report**

We have reviewed the draft Pension Fund Annual Report and confirmed that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the final Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts. The statutory deadline for publishing the document is 1 December 2015.

The Authority has maintained the high standard of its draft accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented the recommendation made in our 2013/14 ISA 260 Report.

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the accounting practices and financial reporting relating to the Fund. We also assessed the Authority's process for preparing the Fund's financial statements and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority has good financial reporting arrangements over the Fund's financial statements in place. We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 9 June 2015.
<b>Quality of supporting working papers</b>	Our <i>Accounts Audit Protocol</i> discussed with the Senior Pensions Accountant, set out our working paper requirements for the audit.  The quality of the working papers provided met the standards specified in our <i>Accounts Audit Protocol</i> .
<b>Critical accounting matters (key audit risks)</b>	We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
<b>Response to audit queries</b>	Officers resolved audit queries in a reasonable time.

### Prior year recommendations

In our 2013/14 ISA 260 Report we recommended that, given the non material error identified during the audit, management should review all foreign exchange rates applied to the valuation of an investment for accuracy and consistency. Our 2014//15 audit work showed that management has sought to review all foreign exchange rates applied to the valuation of an investment for accuracy and consistency. We did not identify any errors in these valuations during this year's audit.

## Section three

# Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

In our *External Audit Plan 2014/15*, presented to you in March 2015, we identified the significant risks affecting the Pension Fund's 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings.

Significant audit risk	Issue	Findings
	<p><b>Risk</b></p> <p>From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 2014/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.</p>	<p>We have reviewed the controls and processes that the Pension Fund has put in place to accurately capture the data required by LGPS 2014. We have confirmed that the correct version of the software used to calculate benefits is in use. There are no specific additional issues arising from our audit work in relation to this significant audit risk that we need to raise in this report.</p>

### Other areas of audit focus

From 1 April 2015, the Pensions Regulator became responsible for regulating the governance and administration of public service pension schemes, which includes the Local Government Pension Scheme. Scheme managers and pension board members must comply with a number of legal requirements, such as the establishment of a pension board with an equal number of employer representatives and member representatives. Pension board members for a public service pension scheme must also meet certain legal requirements that relate to their knowledge and understanding.

We have discussed with managers the progress made in implementing these new arrangements, and noted that the required governance framework is in place. The Board had its first meeting in July 2015. There are no specific additional issues that we need to raise in relation to this area of audit focus in this report.

**Overall the controls over the Fund's key financial systems are effective.**

During March 2015 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

#### **Organisational control environment**

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

Most of the controls we look at do not just relate to the Fund but the Authority as a whole.

We concluded that the Fund's organisational control environment is effective overall. Managers had though highlighted a weakness in internal control which emerged in the year relating to the lack of a reconciliation between information held on the Altair pensions administration system and the pensions payroll system. Whilst this control has been implemented for 2015/16 through the move to the integrated system now provided by the West Yorkshire Pension Authority, discrepancies between the information on the two systems up to the date of the change resulted in under and over payments to pensioners. These amounts were not material and the Authority is taking the required action to rectify these under and over payments. Managers should consider providing the Pensions Committee with update reports to ensure the under/overpayment issues have been fully addressed. We have made a recommendation in this regard in Appendix 1.

#### **ISAE 3402 reports**

The Fund used a number of different fund managers during 2014/15. Most fund managers provide assurance reports under International Standard on Assurance Engagements (ISAE) 3402 or equivalents. ISAE 3402 reports provide assurance over the controls at a service organisation where these controls are likely to be relevant to user entities' internal control over financial reporting.

Assurance reports were available for all fund managers.

#### **Work on behalf of admitted body auditors**

The auditors of admitted bodies requested us to complete specific work on controls operated by the Fund on behalf of the admitted bodies over certain data provided to the actuaries in order to determine the pensions liabilities and related disclosures for the admitted bodies.

Our work did not identify any specific issues other than the incorrect calculation of the membership numbers for Lincolnshire County Council which have now been corrected by the Authority resulting in an updated IAS 19 report from the actuary. This issue had no bearing on the information included in the accounts of the Lincolnshire Pension Fund.



**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

### **Declaration of independence and objectivity**

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Lincolnshire Pension Fund for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Lincolnshire Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

### **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Authority for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

### **Other matters**

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be

communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Fund's 2014/15 financial statements.

We have given this recommendation a risk rating and agreed what action management will need to take.

We will formally follow up on this recommendations next year.

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Priority rating for recommendations		
<p><b>1</b> <b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>2</b> <b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p><b>3</b> <b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>3</b>	<p><b>Statement of Investment Principles Asset Mix</b></p> <p>Managers identified a weakness in internal control relating to the absence of a reconciliation between information held on the Altair pensions administration system and the pensions payroll system. Discrepancies between the information on the two systems system resulted in non-material under and over payments to pensioners. The Authority is taking the required action to address this issue.</p> <p><b>Recommendation</b></p> <p>The Pensions Committee should continue to receive update reports to ensure the under/overpayment issues have been fully addressed.</p>	<p><b>Management Response</b></p> <p>The underpayments were corrected upon discovery. The overpayments are being addressed. The Pensions Committee will continue to receive update reports to ensure the under/overpayment issues have been fully addressed.</p> <p><b>Owner</b></p> <p>Jo Ray, Pensions &amp; Treasury Manage</p>



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